

It also includes warranties, key product technical specifications, maintenance agreements, and preferred customer rewards.

(vi) The contracting officer shall consider catalog prices to be reliable when they are regularly maintained and supported by relevant sales data (including any related discounts, refunds, rebates, offsets, or other adjustments). The contracting officer may request that the offeror support differences between the proposed price(s), catalog price(s), and relevant sales data.

(vii) The contracting officer may consult with the DoD cadre of experts who are available to provide expert advice to the acquisition workforce in assisting with commercial item and price reasonableness determinations. The DoD cadre of experts is identified at PGI 215.404-1(b)(vii).

(h) *Review and justification of pass-through contracts.* Follow the procedures at PGI 215.404-1(h)(2) when considering alternative approaches or making the determination that the contracting approach selected is in the best interest of the Government, as required by FAR 15.404-1(h)(2).

[63 FR 55040, Oct. 14, 1998, as amended at 71 FR 69494, Dec. 1, 2006; 72 FR 30278, May 31, 2007; 77 FR 76940, Dec. 31, 2012; 83 FR 4444, Jan. 31, 2018; 84 FR 72563, Dec. 31, 2019]

215.404-2 Data to support proposal analysis.

See PGI 215.404-2 for guidance on obtaining field pricing or audit assistance.

[71 FR 69494, Dec. 1, 2006]

215.404-3 Subcontract pricing considerations.

Follow the procedures at PGI 215.404-3 when reviewing a subcontractor's proposal.

[71 FR 69494, Dec. 1, 2006]

215.404-4 Profit.

(b) *Policy.* (1) Contracting officers shall use a structured approach for developing a prenegotiation profit or fee objective on any negotiated contract action when certified cost or pricing data is obtained, except for cost-plus-award-fee contracts (see 215.404-74, 216.405-2, and FAR 16.405-2) or con-

tracts with Federally Funded Research and Development Centers (FFRDCs) (see 215.404-75). There are three structured approaches—

- (A) The weighted guidelines method;
- (B) The modified weighted guidelines method; and
- (C) An alternate structured approach.

(c) *Contracting officer responsibilities.*

(1) Also, do not perform a profit analysis when assessing cost realism in competitive acquisitions.

(2) When using a structured approach, the contracting officer—

(A) Shall use the weighted guidelines method (see 215.404-71), except as provided in paragraphs (c)(2)(B) and (c)(2)(C) of this subsection.

(B) Shall use the modified weighted guidelines method (see 215.404-72) on contract actions with nonprofit organizations other than FFRDCs.

(C) May use an alternate structured approach (see 215.404-73) when—

(i) The contract action is—

(i) At or below the certified cost or pricing data threshold (see FAR 15.403-4(a)(1));

(ii) For architect-engineer or construction work;

(iii) Primarily for delivery of material from subcontractors; or

(iv) A termination settlement; or

(2) The weighted guidelines method does not produce a reasonable overall profit objective and the head of the contracting activity approves use of the alternate approach in writing.

(D) Shall use the weighted guidelines method to establish a basic profit rate under a formula-type pricing agreement, and may then use the basic rate on all actions under the agreement, provided that conditions affecting profit do not change.

(E) Shall document the profit analysis in the contract file.

(5) Although specific agreement on the applied weights or values for individual profit factors shall not be attempted, the contracting officer may encourage the contractor to—

(A) Present the details of its proposed profit amounts in the weighted guidelines format or similar structured approach; and

(B) Use the weighted guidelines method in developing profit objectives for negotiated subcontracts.

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(6) The contracting officer must also verify that relevant variables have not materially changed (e.g., performance risk, interest rates, progress payment rates, distribution of facilities capital).

(d) *Profit-analysis factors*—(1) *Common factors*. The common factors are embodied in the DoD structured approaches and need not be further considered by the contracting officer.

[63 FR 55040, Oct. 14, 1998, as amended at 63 FR 63799, Nov. 17, 1998; 65 FR 77829, Dec. 13, 2000; 66 FR 49863, Oct. 1, 2001; 71 FR 69494, Dec. 1, 2006; 77 FR 76940, Dec. 31, 2012]

215.404-70 DD Form 1547, Record of Weighted Guidelines Method Application.

Follow the procedures at PGI 215.404-70 for use of DD Form 1547 whenever a structured approach to profit analysis is required.

[71 FR 69494, Dec. 1, 2006]

215.404-71 Weighted guidelines method.

215.404-71-1 General.

(a) The weighted guidelines method focuses on four profit factors—

- (1) Performance risk;
- (2) Contract type risk;
- (3) Facilities capital employed; and
- (4) Cost efficiency.

(b) The contracting officer assigns values to each profit factor; the value multiplied by the base results in the profit objective for that factor. Except

for the cost efficiency special factor, each profit factor has a normal value and a designated range of values. The normal value is representative of average conditions on the prospective contract when compared to all goods and services acquired by DoD. The designated range provides values based on above normal or below normal conditions. In the price negotiation documentation, the contracting officer need not explain assignment of the normal value, but should address conditions that justify assignment of other than the normal value. The cost efficiency special factor has no normal value. The contracting officer shall exercise sound business judgment in selecting a value when this special factor is used (see 215.404-71-5).

[67 FR 20689, Apr. 26, 2002]

215.404-71-2 Performance risk.

(a) *Description*. This profit factor addresses the contractor's degree of risk in fulfilling the contract requirements. The factor consists of two parts:

(1) Technical—the technical uncertainties of performance.

(2) Management/cost control—the degree of management effort necessary—

(i) To ensure that contract requirements are met; and

(ii) To reduce and control costs.

(b) *Determination*. The following extract from the DD Form 1547 is annotated to describe the process.

Item	Contractor risk factors	Assigned weighting	Assigned value	Base (item 20)	Profit objective
21 ..	Technical	(1)	(2)	N/A	N/A
22 ..	Management/Cost Control	(1)	(2)	N/A	N/A
23 ..	Performance Risk (Composite)	N/A	(3)	(4)	(5)

(1) Assign a weight (percentage) to each element according to its input to the total performance risk. The total of the two weights equals 100 percent.

(2) Select a value for each element from the list in paragraph (c) of this

subsection using the evaluation criteria in paragraphs (d) and (e) of this subsection.

(3) Compute the composite as shown in the following example:

	Assigned weighting (percent)	Assigned value (percent)	Weighted value (percent)
Technical	60	5.0	3.0
Management/Cost Control	40	4.0	1.6
Composite Value	100	4.6